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MACROECONOMIC POLICY QUESTIONS: EXTERNAL DEBT CRISIS AND DEVELOPMENT

Letter dated 27 October 1995 from the Chargé d'affaires a.i. of the Permanent Mission of Yugoslavia to the United Nations addressed to the Secretary-General

I have the honour to transmit herewith, the position of the Federal Republic of Yugoslavia on the external debt crisis and development.

I should be grateful if you would have the present letter and its annex circulated as an official document of the General Assembly under agenda item 94, "Macroeconomic policy questions: external debt crisis and development".

(Signed) Vladislav JOVANOVIC
Ambassador
Chargé d'affaires a.i.

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ANNEX

The external debt crisis and development: position of Yugoslavia

The external debt crisis of the developing countries, which emerged at the beginning of 1980, was thrown into even sharper relief at the beginning of 1990, so that about 60 debtor countries are over 20 per cent in arrears of the payment of the outstanding debt: one half of them is over 50 per cent and one fourth over 90 per cent.

Compared with the situation of the debtor countries, the situation of the Federal Republic of Yugoslavia is even more complex and difficult due to United Nations sanctions, armed secession of some Republics from the former Socialist Federal Republic of Yugoslavia and the combat operations in its immediate vicinity. In addition, foreign markets have been lost, the domestic market has contracted, capital and other foreign financial transactions have been interrupted, the economy has been decapitalized and the country is devoid of resources for simple production, let alone for development investment. This has brought about a drastic fall in social product and enormous damages (direct damage in the period 1991/95 amounts to about US$ 50 billion, but with the development lost, the overall damage to the economy is in the region of almost US$ 150 billion).

The difficult material situation of the Federal Republic of Yugoslavia is not relieved at all by Yugoslavia's debt to foreign creditors, which amounts to over US$ $9 billion. The said amount is in fact Yugoslav commitments to international financial organizations, creditor Governments and commercial banks. Moreover, foreign commitments of Yugoslav banks amount to about US$ 4 billion, so that the overall Yugoslav external debt, not including the interest, is in the range of US$ 13 billion.

The 1994 social product of the Federal Republic of Yugoslavia amounted to US$ 12.6 billion, which is less than its external debt. This ranks Yugoslavia among the most heavily indebted countries of the world.

Bearing in mind the aforementioned data, it is very obvious that the customary conditions of external debt regulation, that is, of re-emergence on the international capital market, cannot be applied to the Federal Republic of Yugoslavia.

Preliminary assessments indicate that, following the lifting of sanctions, the Federal Republic of Yugoslavia needs a "breather" of a number of years in which arrangements would be made with all creditor groups so as to ensure a positive net inflow of capital in the first few years after the sanctions have been lifted. This would provide for the restoration of sustainable and non-inflationary growth of social product so that Yugoslavia would be able to resume, after a number of years, regular servicing of its external debt and to take new loans under standard conditions, which is in the interest of both Yugoslavia and its creditors.

In order to achieve this, it is necessary that, in addition to the lifting of sanctions, the Federal Republic of Yugoslavia be ensured of the following:

- Longer grace and repayment periods;

- A higher percentage of official bilateral and commercial debt write-off than currently granted;

- Interest under concessional terms, reprogramme and write-off of part of the interest accrued on debts from private and public bilateral sources (creditor Governments);

- Possibilities for concluding such innovative arrangements, primarily with the International Monetary Fund and the World Bank, as would ensure, in the first several years after the lifting of sanctions, a positive net inflow of capital to Yugoslavia.

It is necessary to ensure these conditions in order to enable the Federal Republic of Yugoslavia to alleviate the devastating consequences of the sanctions and reintegrate itself into the international economic community, that is, to restore interrupted economic relations with its traditional foreign partners.

The key role in the realization of this conception of the consolidation of the external debt of the Federal Republic of Yugoslavia should be played by the International Monetary Fund in cooperation with the World Bank, so that it is necessary for these reasons to reactivate as soon as possible Yugoslavia's membership in these institutions and resume cooperation with them right after the lifting of sanctions. The above-mentioned international financial organizations should display maximum flexibility and readiness to resume an early dialogue in order to work out a joint strategy to achieve the stated goals.